

**Presentation by Larry E. Sevier, CEO  
Rural Telephone Service Company, Inc.**

**on Rural Broadband Access  
a Public Meeting Conducted by the  
Rural Utilities Service/Department of Agriculture**

**June 27, 2002**

**Good Morning: My name is Larry Sevler, CEO/General Manager for Rural Telephone Service Company, in Lenora, Kansas. Our ILEC company serves approximately 12,000 access lines in 15 counties in Northwest and North Central Kansas with a system density of 2.37 access lines per square mile. It is rather sparse in our part of the world.**

**With the assistance of the traditional RUS loan program, our company has made broadband access available to approximately 70% of our customers, and we continue to expand into the more remote rural areas of our certified service territory.**

**Rural Telephone's involvement with providing broadband communications in rural areas dates back to 1990, when the company constructed the ICAN two-way interactive video network to provide distance learning capabilities in northwest Kansas. Today the ICAN network has grown to include 10 high schools and a community college, which has greatly enhanced access to educational opportunities in the region.**

**In addition to providing broadband services to the classroom, Rural Telephone has taken a leading role in designing and developing a broadband network linking area health care providers with a major medical center in an effort to provide cost-efficient and timely medical care via telemedicine, which is extremely important because of our rapidly aging population in northwest Kansas. Telemedicine provides access to specialized health care for the elderly, which otherwise would not be available because of travel difficulties and the economic barriers of fixed incomes.**

**There are still many small rural communities in our area ranging in size from 200 to 5,000 in population that are served by either Southwestern Bell or Sprint/United that have no broadband access, and little hope to have access to broadband services in the near future. The aging population and outmigration has slowly taken its toll and many of these communities are slowly dying. Without some hope of having an equal opportunity to promote economic development, these communities will slowly disappear. Rural Telephone has been approached by many of these communities asking for assistance.**

**Through our subsidiary company, Nex-Tech, we are making an effort to assist some of these communities. Finding funding to overbuild with broadband-capable networks in these communities became a huge challenge. We were able to take advantage of the new RUS broadband pilot loan program in year**

2000 and borrowed funds to overbuild the nearby communities of Norton (population 3,400) and Almena (population 517).

After reviewing the costs involved in overbuilding these communities, it was determined that it was not feasible to build to the entire exchange area, and the project would need to be done in two phases. Phase I would involve building within the city limits, with Phase II coming later as cash reserves allowed. Even at that, for Phase I, our business model revealed that we would need 70% penetration to make this a feasible project. This would be quite a challenge in itself.

We worked with the communities to determine what their needs were and set goals of pre-signing 70% prior to the beginning of construction. We found the communities wanted a local office, local representation, discounted bundled services, fiber optic cable, all services on one bill, and of course, access to broadband services. The leaders in these communities want and need economic stability and the opportunity to grow their communities.

Even though the cost was slightly higher than conventional technology, we selected fiber to the home as the technology which would provide nearly unlimited bandwidth, opened a local office staffed with local people and provided discounted bundled services which we call the Power of One. These services include local telephone, video, Internet, long distance, high-speed data and "Lightning Jack" high-speed Internet service.

We very quickly signed over 70% to our telephony service, and today have over 96% of the access lines in these communities on our CLEC service.

Did we encounter challenges along the way? We certainly did and continue to encounter them today. Let me share with you some of these challenges.

1. First, was the challenge of attaining 70% of the customer base for a feasible project. To achieve enthusiasm in the community, we opened a local office staffed with local people, offered bundled discounted packages and, of course, broadband services. We held a soup and sandwich sign-up event in each community, then went door-to-door until we achieved the required numbers.
2. The second challenge was finding financing. This was accomplished through the RUS broadband loan program. There are few lenders willing to provide financing for CLEC operations.

3. Another challenge was finding ways to build the system economically. We had to abandon the traditional build of underground facilities and constructed aerial to conserve costs.
4. Working with the large Incumbent ILEC is always a challenge. For example, completing an interconnection agreement, coordinating cutovers, number portability and customer confusion, etc.
5. Another challenge was making the new system work at the customer's premise with the often times inadequate and old wiring inside the customer's house. The cost of rewiring these homes can be very costly, and the customer still owns the wiring. We are currently working with customers in which we will do the rewiring for a fee, or they can have the work performed by someone else.
6. A new significant challenge has been dealing with a continual lowering of access charges by the FCC. At the time our studies were completed, access charges were approximately 5.5 cents. We were able to charge the incumbent rate or the NECA high band rate. When the MAG plan was adopted by the FCC, the NECA high band rate began to decline, and our CLEC access charges continue to decline. We are currently able to charge approximately 3.0 cents and this number is slated to go even lower. We have been able to maintain profitability to this point mainly due to the high penetration numbers, which as I mentioned currently stands at 96%. A company would not typically expect nor would it build a business model with a 96% penetration.

It is ironic that one of the competitive models that best fits the description of what Congress intended in the telecom act, an overbuild model, is slowly being squeezed to extinction. There are no USF or state funds for CLEC overbuilds. These systems, in most cases, must stand on their own. Typically in the rural ILEC world, as access charges are lowered, the ILEC is made whole with a corresponding USF increase. This is not the case with CLEC overbuilds. The FCC must address this issue. The FCC should also take into consideration that in the case of a CLEC overbuild, the communities are receiving broadband service over new higher-cost facilities. This should also dictate a higher access charge than the incumbent.

7. Another challenge was finding a way to lower the price of high-speed Internet services to generate a higher take rate. Rural Telephone has been offering high-speed Internet at \$49.95 in its 29 exchanges for over

two years now, and has a total of 470 subscribers, which is only 13% penetration of those taking Internet service. In Norton and Almena, Nex-Tech has signed 57 customers, which amounts to a penetration of 7% of those taking Internet service. We have recently found a way to lower our backbone costs and are currently promoting 512k service at \$39.95 per month. The program was started recently; therefore, it is too early to determine the effect on penetration.

Nex-Tech is currently overbuilding a Sprint/United community, Osborne (population 2,100). We are facing many of the same issues mentioned earlier with Norton & Almena. It, too, requires a sign up of 70% just to meet feasibility with no return on investment. Fortunately we were able to secure a low interest loan through the RUS broadband loan program, have attained the 70% pre sign up and have begun construction. We expect the cutover to be completed this fall.

Why would Rural Telephone and Nex-Tech take on these overbuild projects with little hope for adequate return on investment? Because these communities need assistance. If given an equal opportunity for economic development to be able to attract business or industry, no matter how small, will at least give these communities a fighting chance for survival. It is a wonderful thing to see these communities come together with a sense of pride, working together when they know they have the same opportunity as the metropolitan areas, to grow their community. This sense of pride is contagious and will affect us all.

Even though there are still many other challenges in bringing broadband services to rural areas, it is essential that companies like ours have access to low interest financing if we are to assist other communities. We applaud the efforts of Congress in making funds available in the recently signed Farm Bill, and we certainly applaud RUS for administering this extremely important program.

I would be happy to answer any questions.

221 W. Main • Osborne, KS 67473 • Phone: 785-346-2199

Office Hours: Monday - Friday 8:00 a.m. to 5:30 p.m.

**NEXTECH**

Local Telephone Service • Long Distance

**Margaret L. VanSoyec**  
**Economic Development Director**

"The City of Osborne welcomes Nex-Tech to the community. Because of the state-of-the-art technology, Osborne businesses, in need of advanced telecommunications, will thrive and survive.

Nex-Tech will enable businesses and industries to expand their territory beyond this community, which will help retain employees and add to the bottom line.

Not only will businesses grow, residents will also have the opportunity for the finest technology available."

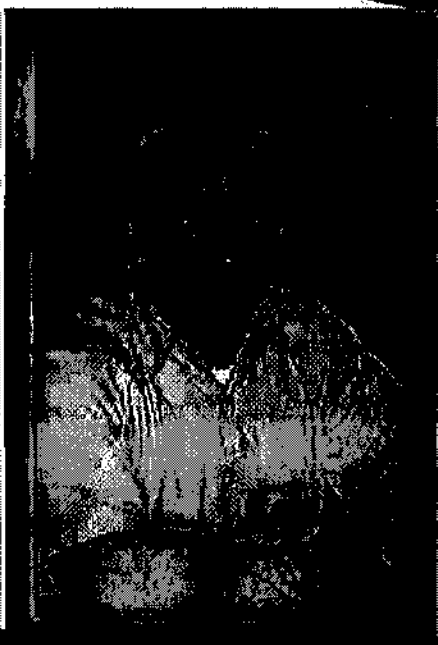
*Margaret L. VanSoyec*



Nex-Tech continues to accept applications for:  
 Local Telephone Service • Long Distance • High-Speed Internet • Cable TV  
*Sign up now and Nex-Tech will waive the \$25 application fee!*

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**George R. Eakin**  
**Mayor, Osborne Kansas**

"The City Council and myself are solid supporters of Nex-Tech. We are fortunate that Nex-Tech has brought advanced communication technology to our community. Because of this we hope to 'Seize the moment' and focus on bringing in new businesses to utilize Nex-Tech communications."

*George R. Eakin*

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